



INFORMATION

Inquiry into Water Resource Management and Planning Charges

FINAL REPORT TABLED IN PARLIAMENT

The Treasurer Mr Christian Porter has released the Economic Regulation Authority's [final report](#) on its Inquiry into Water Resource Management and Planning Charges. The inquiry, requested by the Treasurer on 2 April 2009, was to provide the Government with a range of options and recommendations for:

- the recovery of the water resource management and planning expenses incurred by the Department of Water (**Department**); and
- the most appropriate regulatory arrangements for the setting of service standards for the water resource manager, the setting of charges and the subsequent recovery of those charges from water users.

Principles for Cost Recovery

In conducting the inquiry, the Authority consulted on and developed principles to guide the recovery of water resource management and planning costs. The key principles are that:

- the efficient costs of services provided by the Department should be recovered from those for whom the services are provided. Where these services are provided for identifiable private parties, the efficient costs of the services should be recovered from those parties;
- public funding is appropriate where there is a component of public good to some activities, or where parties benefiting from the services cannot be identified; and
- the benefits of cost recovery should outweigh its costs, and any charges levied should be practical to implement, transparent and equitable.

Efficient Costs to be Recovered

The Authority estimated that in 2008-09, the Department incurred a total of \$27.7 million of costs that could be confidently assessed as being efficiently incurred on behalf of identifiable private parties. This compares to a total expenditure by the Department on all its activities in that year of \$108.0 million, most of which are not suitable for cost recovery as they do not meet the above principles. The \$27.7 million identified as suitable for cost recovery excludes any costs incurred on behalf of the wider community (the public good component).

In assessing the accountability, effectiveness and efficiency of the Department, the Authority was informed by several consultant reviews, including a review by Quantum Management Consulting & Assurance on the processes used by the Department in carrying out its activities, and a review by PricewaterhouseCoopers on the efficiency and effectiveness of the Department. All consultant reports are available on the Authority's [website](#).

Activities for Cost Recovery

Processing and assessing applications for water licences and permits

The Authority has set licence and permit application fees to recover the efficient costs incurred by the Department each year in processing and assessing applications for water licences and permits (\$7.8 million in 2008-09). The application fees are differentiated between:

- “basic” applications, which require only common administrative activities, a water resource impact assessment, review and sign-off; and
- “complex” applications, which require additional assessments such as hydrological surveys, site surveys or operating strategies.

The fees also distinguish between low risk, medium risk and high risk licences, which depends largely on the size of the licence and the degree to which water resources in an area have been allocated.

The fees for licence renewals are based on a recovery of only 40 per cent of the Department's efficient costs associated with the assessment and processing of applications for licence renewals. The rationale is that comprehensive allocation planning would reduce or eliminate the need for licence renewal assessments, so these costs are best allocated to the activity of allocation planning.

Providing water allocations and managing the ongoing use of water

The Authority has recommended that annual fees to licence holders to recover ongoing costs of providing and managing water allocations be deferred until the introduction of new water resources legislation.¹ At that point, regional annual charges should be introduced. However, the Authority recommends that the costs of developing the initial allocation plan for a catchment be publicly funded, as some regions have already had allocation plans finalised.

The Department spends around \$9.8 million a year on behalf of private parties in providing water allocations and managing the ongoing use of water. This estimate is 70 per cent of the efficient costs of the Department of these activities, with the remaining 30 per cent recovered from public funds to reflect the public good component.

An annual fee to licence holders is the most appropriate form of cost recovery for water allocation planning and management activities. However, the levying of annual fees would require the development of statutory water allocation plans and the establishment of a Water Resources Council. Further, the Authority considers that annual charges should be cost reflective, with allocation planning and management costs in each region recovered from the licence holders in that region, and with cost shares determined by the proportion of effort required by the Department for different types of licence holders.

Licensing of the Water Corporation for the Integrated Water Supply Scheme (IWSS)

The Authority has recommended that the efficient costs incurred by the Department in licensing the Water Corporation for the IWSS be recovered directly from the Water Corporation through an annual fee, accompanied by a set of service standards agreed between the Department and the Water Corporation.

¹ The Department of Water is currently drafting a Water Resources Management Bill for consideration by Government as part of the Government's water management reform agenda. It is anticipated that the drafting of the bill will be finalised in 2011.

Water metering of particular customers with State-owned meters

Some customers on the Gngangara Mound and in the Carnarvon Groundwater Area have State-owned meters managed by the Department. The efficient cost of these metering activities was \$2.84 million in 2008-09. The Authority has recommended that the efficient costs of this metering program be recovered through an up-front fee for meter provision, installation and maintenance, a separate fee for meter reading, and an annual charge for data management and administration costs. Some meter owners may choose to purchase, install, maintain and/or read their own meters, subject to agreement with and occasional monitoring by the Department.

Protecting public drinking water supplies

The Authority recommends that Memorandums of Understanding be established between the Department and water service providers to allow for the recovery of the efficient costs incurred by the Department each year in planning and implementing water source protection plans. In 2008-09, these costs amounted to \$1.58 million for the Water Corporation, \$27,000 for Aqwest and \$9,000 for Busselton Water Board. The costs of purchasing and managing Priority One land for the Water Corporation should also be charged directly to the Water Corporation.

Other services provided by the Department

The Department provides a range of other services for identifiable private parties, from whom the costs could be recovered. These include:

- providing advice on statutory referrals;
- guiding urban drainage and water management; and
- providing advice on floodplain management.

However, the Authority found that there was insufficient information to establish charges that were sufficiently reflective of the costs of providing these services and has recommended that cost recovery be deferred until new legislation is in place and more information is available.

The Department also provides water information to private parties. The Authority does not recommend cost recovery for this activity, as the benefits of recovering costs are unlikely to outweigh administrative costs.

Recommended charges

The Authority's recommended water resource management and planning fees and charges are set out in the table below. The fees and charges are phased in over three years and are based on 2008-09 cost figures, but would be indexed for inflation at the time of implementation.

Authority's recommended water resource management and planning fees and charges

Services	Year 1 – 25 Per Cent of Efficient Costs Recovered (\$)	Year 2 – 50 Per Cent of Efficient Costs Recovered (\$)	Year 3 – 100 Per Cent of Efficient Costs Recovered (\$)
A. Processing and assessment of applications for water licences and permits (per application)			
<i>New 5C licence</i>			
Low risk			
Basic	415	835	1,670
Complex	1,210	2,425	4,850
Medium risk			
Basic	685	1,370	2,740
Complex	1,550	3,100	6,200
High risk			
Basic	710	1,425	2,850
Complex	1,320	2,645	5,290
<i>5C licence renewals</i>			
Low risk	205	410	825
Medium risk	260	525	1,055
High risk ^(c)	245	495	990
<i>Other licence application fees</i>			
Amendment of a licence	595	1,190	2,380
Trade or transfer of a licence	730	1,465	2,930
Licence to construct or alter a well	455	915	1,835
Permit to interfere with bed or banks	415	835	1,670
B. Licensing of the Water Corporation for the IWSS – Indicative Only (per year)	68,105	136,215	272,430
C. Water Metering			
<i>Meter supply, installation and maintenance (per meter)</i>	925	1,850	3,705
<i>Meter reading (per meter reading)</i>	5	10	20
<i>Metering data services (per year)</i>	20	45	90
D. Protecting public drinking water sources (annually)			
<i>Planning and Implementation – Indicative</i>			
Water Corporation	394,650	789,300	1,578,600
Aqwest	6,755	13,515	27,030
Busselton Water	2,365	4,730	9,460
<i>P1 Land Management - Indicative</i>			
Water Corporation	13,965	27,930	55,865
<i>Purchase of P1 Land - Indicative</i>			
Service providers			Case-by-case

Implementation of fees and charges

Fees and charges should be accompanied by clear and meaningful service standards developed in consultation with stakeholders. The Authority recommends that a water industry committee be established to represent licence holders and to work with the Department to develop appropriate service standards and performance indicators.

The Authority also recommends that the fees and charges be independently reviewed at the end of the three-year phase-in period or after the new water resources legislation is introduced, whichever occurs first, and then every three years after that.

Equity issues

The Authority considers that capacity-to-pay issues should not influence the design of water resource management charges, as it is important for charges to signal to users the costs of managing water resources. It should be noted that most water allocations are used for commercial enterprises. The final recommended fees and charges are considerably lower than those recommended in the second draft report (2 November 2010) due to the deferral of cost recovery for several of the activities, resulting in a total cost recovery of \$14.1 million out of the \$27.7 million efficient costs. Further, differentiation of licence application fees will reduce costs for those who have relatively simple applications.

Another equity issue raised was that garden bore owners in Perth would be exempt from charges as they do not require licences. Ideally, garden bore owners should be charged for the costs that they cause to be incurred in monitoring and managing Perth's groundwater resources, if these costs do not exceed the cost of recovering them. The Authority does not consider that this is currently the case, and does not recommend cost recovery at this stage. However, the Department should continue to monitor the water resource management costs associated with garden bores, and establish a register of garden bores to facilitate cost recovery when this becomes necessary.

Inquiry process

In preparing the final report, the Authority published an issues paper, a discussion paper and two draft reports and received a total of 138 submissions in response to these publications. The Authority also held two public round tables and met with interested parties to discuss their views.

The Authority would like to thank all who have made submissions and participated in the development of the Authority's recommendations in this final report.

A copy of the final report is available on the Authority's [website](#).

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